580.0000 MANDATORY AUDITS

See Audits

580.0001 **Banks and Insurance Companies.** Mandatory audits are determined by adding the full value of personal property, fixed machinery and equipment, and trade fixtures. Although the personal property of banks and insurance companies is exempt, banks and insurance companies whose trade fixtures total $200,000 full value must be audited. LTA 3/25/80 (No. 80/53).

Note: Stats. 1991, Ch. 1148, in effect October 14, 1991, increased amount from $200,000 to $300,000.

580.0005 **Change in Ownership.** When business property is transferred it is the property value and status of the transferee taxpayer which determines whether and when a section 469 mandatory audit of the transferred property must be conducted. There is no requirement that the audit schedule formerly applicable to the transferring taxpayer be applied to the transferee upon change in ownership. The assessor may, however, perform an audit sooner than four years after the prior audit or acquisition of property exceeding the section 469 specified amount, and maintain the transferred property on the same audit schedule as existed prior to the transfer.

When the transfer is in the form of a change in ownership of a legal entity, or merger of legal entities, the property of the legal entity must be audited within four years of the date when the property of the legal entity was last audited. C 12/2/82; C 10/13/99.

580.0009 **Escape Assessment.** If an audit discloses that computer equipment was incorrectly classified on the business property statement and was assessed at a lower value as a result of the misclassification, the assessor may issue an escape assessment pursuant to Revenue and Taxation Code section 531.4 for the value of the equipment that was underassessed. However, if the taxpayer accurately reported the computer equipment, but the assessor determines by audit that incorrect lives were used that caused the equipment to be assessed at a lower value, the equipment is not subject to an escape assessment. A change in a life table involves the exercise of value judgment, and the assessor is not authorized to correct such an error under Revenue and Taxation Code section 4831. C 1/3/2005; 4/6/2006.

580.0010 General Description. LTA 4/29/80 (No, 80/70). (Deleted 1999)

580.0015 **Leased Real Property.** If personal property has been subject to a Revenue and Taxation Code section 469 mandatory audit, it would be appropriate for the assessment appeals board, upon its own volition or upon the assessee's application, to consider whether the underlying real property at the location forms an appraisal unit therewith even though the real property is leased from a third party. C 6/25/96.

580.0020 **Out-of-State Travel.** Revenue and Taxation Code section 470 and Corporations Code section 1506 provide the assessor with sufficient statutory authority to require that foreign and out-of-state domestic taxpayers bring their records to California for audit purposes. A review of the audit work papers from prior out-of-state audits will reveal accounts suitable for processing in this manner. Accounts involving extension records may not be suited to this treatment. A proper screening and identification process should reduce travel expenses related to the audit program. LTA 8/10/78 (No. 78/140).

580.0021 **Owner/Lessor.** Owner/lessor and lessee of property are both included in mandatory audit requirement of Revenue and Taxation Code section 469 if the value of the leased property puts them over the value threshold. Stats. 1991, Ch. 1148, in effect October 14, 1991, increased the $200,000 limitation amount to $300,000. C 8/31/90.

580.0022 **Performance by Appraiser.** A person who is hired as an Appraiser I because he has two years of experience selling real estate, but who has no auditing experience and lacks an accounting degree, and who is placed on an Auditor-Appraiser II civil service list based on only an oral examination, is not qualified under Revenue and Taxation Code section 670(d) to perform mandatory audits. C 9/27/95.

580.0030 **Results.** When refunds result from an audit, the auditor and tax collector are required to offset those refunds by any proposed escape assessments. Generally, escape assessments must be enrolled and delivered to the auditor within four years after July 1 of the assessment year in which the property escaped assessment. Escape assessments not enrolled within the statute of limitations are invalid and may not be used for purposes of offsetting proposed refunds. C 11/25/2002.

580.0040 **Trade Fixtures.** Trade fixtures, for purposes of inclusion as part of the mandatory audit program, are defined in California Civil Code section 1019 as property that a tenant installs for purposes of trade and which does not become an integral part of the building. This includes any property qualifying as fixtures under the definition in the business property statement, plus machinery and equipment classified as improvements. The value of such trade fixtures is to be included as part of the total combined full value of personal property, fixed machinery and equipment, and fixtures when establishing the minimum full value of a mandatory audit. LTA 10/16/79 (No. 79/178); LTA 3/25/80 (No. 80/53).